

Message Text

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51 46

ACTION EB-11

INFO OCT-01 EUR-25 IO-14 ISO-00 AID-20 CIAE-00 COME-00

FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 FEAE-00 L-03 H-03 PRS-01 PA-04 USIA-15

SAJ-01 DRC-01 /183 W

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R 181700Z JUL 74

FM AMEMBASSY DUBLIN

TO SECSTATE WASHDC 5822

INFO AMEMBASSY BRUSSELS

AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

UNCLAS DUBLIN 00958

C O R R E C T E D C O P Y A D D I N G T A G S I N F O

E.O. 11652: N/A

TAGS: EFIN, EI

SUBJECT: CENTRAL BANK CALLS FOR INCOME CONTROL

1. IRISH CENTRAL BANK HAS JUST PUBLISHED ANNUAL REPORT FOR 1973/74 IN WHICH IT ESTIMATES IRELAND'S GNP GROWTH RATE AT 4 PERCENT FOR CURRENT YEAR, BUT NOTES THAT INFLATION IS RUNNING AT ANNUAL RATE OF 16 PERCENT. CENTRAL BANK GOVERNOR T. K. WHITAKER HELD PRESS CONFERENCE IN CONNECTION WITH RELEASE OF REPORT IN UNCLASSIFIED

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WHICH HE CLAIMED THAT ACTUAL STANDARD OF LIVING MAY IMPROVE

SLIGHTLY DESPITE INFLATION AND MODEST GROWTH RATE, BUT HE ADMITTED THAT IT MAY WELL REMAIN UNCHANGED.

WHITAKER NOTED THAT, DUE TO OIL AND COMMODITY PRICES, IRELAND'S TERMS OF TRADE HAVE DETERIORATED, AND DEFICIT ON CURRENT ACCOUNT FOR CALENDAR YEAR 1974 MAY REACH 200 MILLION POUNDS. WHITAKER SAID BANK EXPECTS DEFICIT TO BE OFFSET BY COMBINATION OF FOREIGN BORROWING AND FOREIGN INVESTMENT. HE ADDED THAT FUTURE REPETITION OF CURRENT DEFICIT AND BORROWING IS "WORRYING" AND SAID THAT ADJUSTMENTS OF A MORE BASIC NATURE THAN RELIANCE ON FOREIGN BORROWINGS TO FINANCE THE INCREASED COST OF OIL WERE NECESSARY. IRELAND'S CURRENT EXTERNAL RESERVES ARE EQUIVALENT TO 30 PERCENT OF ANNUAL IMPORTS AS COMPARED WITH 50 PERCENT PREVIOUSLY.

2. BANK'S REPORT STATES EXPANSIONARY POLICIES INVOLVING LARGER PUBLIC EXPENDITURE "CAN LEAD ONLY TO DISASTER" IF SUCH POLICIES REQUIRE LARGE FOREIGN BORROWINGS OR ADD TO DOMESTIC INFLATION BY STRAINING PRODUCTIVE CAPACITY. REPORT GOES ON TO DESCRIBE GOVERNMENT'S LAST BUDGET AS "A FURTHER STEP ALONG THE INFLATIONARY ROAD." IT FURTHER ASSERTS THAT INFLATION CANNOT BE BLAMED SOLELY ON EXTERNAL FORCES BEYOND IRELAND'S CONTROL, AND IT IDENTIFIES THE MAJOR CAUSE OF IRELAND'S INFLATION AS THE OVER RAPID GROWTH IN MONEY INCOMES, WHICH IN TURN IS ATTRIBUTED TO WAGE AND SALARY INCREASES TIED TO MOVEMENT OF THE CONSUMER PRICE INDEX. WHITAKER, DURING PRESS CONFERENCE, STATED THAT BANK FAVORS AN INDEXING SYSTEM WHEREIN MONEY INCOMES COULD BE ADJUSTED EACH QUARTER WITH REFERENCE TO CONSUMER PRICE INDEX BUT FLATLY OPPOSES WAGE AGREEMENTS LINKED DIRECTLY TO PRICE INDEX. BANK ALSO BLAMES INFLATION ON INCREASE IN MONEY SUPPLY IN IRELAND WHICH HAS GROWN AT RATE FASTER THAN THAT OF GNP.

3. CENTRAL BANK REPORT CONCLUDES THAT IF INCOMES COULD BE KEPT IN LINE INFLATION RATE COULD BE CUT TO 7 PERCENT IN 1976 DESPITE EXTERNAL PRESSURES.

4. COPIES OF REPORT WILL BE POUCHED TO DEPARTMENT. MOORE

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